



**RESPONSES TO QUESTIONS/
REQUESTS TO AMEND
RFP NO. DCP-FY-03-2**

**EQUITY AND FIXED INCOME
INVESTMENT OPTIONS
FOR THE
STATE OF HAWAII
SECTION 457 DEFERRED COMPENSATION
PLAN**

Date: July 10, 2003

I. INTRODUCTION

On June 18, 2003, the Board of Trustees (“**Board**”) of the State of Hawaii (“**State**”) Deferred Compensation Plan (“**Plan**”) issued RFP No. DCP-FY-03-2, a Request for Proposals to select Equity and Fixed Income Investment Options for the Plan (“**RFP**”). Pursuant to the RFP, prospective bidders or Offerors were given an opportunity to submit questions on or requests to amend the RFP by July 3, 2003.

The following are the questions/requests to amend the RFP (in no particular order) and the Board’s responses.

II. QUESTIONS AND RESPONSES

- 1. Could you clarify what you mean under Section III. Scope of Work of the RFP by “same day late trading for administration and recordkeeping purposes”?**

Response: Late-day trading provides an after-hours, same-day mutual fund exchange service to enable the current TPA (CitiStreet) to provide daily valuation services for participants. Offerors who are proposing mutual fund(s) must be able to deliver a daily net asset value (“NAV”) to CitiStreet on a same day late trading basis.

- 2. Can an official electronic copy of the RFP be provided?**

Response: No; because the General Conditions are not in an electronic format. Offerors should request a hard copy of the RFP, which includes the General Conditions. To receive an official hard copy, call the State of Hawaii Department of Human Resources Development at (808) 587-1070.

- 3. [Referencing Section IV. Information Included in Proposal Questions B.1.a. and B.2.a. of the RFP] Does this mean that proposals will not be disqualified even if they do not specifically meet all of the requirements detailed in Part III. Scope of Work?**

Response: As described in Section IX. Proposal Evaluation and Selection. D. of the RFP, proposals shall be initially classified as “acceptable”, “potentially acceptable”, or “unacceptable”. Generally, proposals will not be deemed “unacceptable” for answers submitted for Questions B.1.a. and B.2.a. However, the Board will note and evaluate deviations on a case-by-case basis for answers submitted for Questions B.1.a. and B.2.a. and proposals may be eliminated or receive lower evaluation scores based on the magnitude of these deviations.

- 4. [Referencing Section III. Scope of Work. B.1.c.3.] What is the source of the “median opportunistic fixed income manager median” and does performance apply to net-of-expense or gross-of-expense performance?**

Response: Mercer Investment Consulting, Inc. constructs the peer group median from data supplied by Morningstar. Peer groups are compiled using net-of-expense mutual funds.

5. [Referencing Section III. Scope of Work. B.2.c.3. of the RFP] What is the source of the “median large cap value manager median” and does performance apply to net-of-expense or gross-of-expense performance?

Response: Please refer to the Response to Question # 4.

6. Section IX. Proposal Evaluation and Section. F.2. of the RFP references the State of Hawaii “Agreement for Goods or Services based on Competitive Sealed Proposals” and the “General Conditions” to be in Appendix D, but these are not attached. Would these documents be available for review prior to submitting the Letter of Intent to Submit a Proposal, and if so, where might we find them? Further Section IX. Proposal Evaluation and Section. E. describes the contract term, but seems to suggest that the Contract would be for a period of 5 years without a right for the Contractor to terminate the contract during that period. Is that understanding correct?

Response: Offerors should request a hard copy of the RFP at which time they will receive the “General Conditions”. The “Agreement for Goods or Services based on Competitive Sealed Proposals” is a boilerplate contract that contains the “General Conditions”. Thus, the “General Conditions” are available; however, the Agreement for Goods and Services” will not be. Hard copies of the RFP may be requested by calling the State of Hawaii Department of Human Resources Development at (808) 587-1070. The interpretation of the language in Section IX. Proposal Evaluation and Section. E. is correct. The Board will review requests for changes in the terms of the contract.

7. Several places in the RFP suggest that the investment manager may have some recordkeeping duties. Could you clarify what is expected of the investment manager in Section III. Scope of Work.C.1.a.6. to provide a quarterly report of “payments to participants/beneficiaries” (we would expect that the Third Party Administrator would do this)? Similarly, could you clarify what is expected for the respondent to have “same day late trading for administration and recordkeeping purposes (e.g., Section III. Scope of Work. B.1.a.5.)?

Response: Providers would not be asked to submit or report information regarding payments to participants/beneficiaries. Please refer to the Response to Question # 1 for same day late trading.

8. For products where we do offer a competitive product, but cannot meet certain non-profit-specific requirements (such as providing five 457 Plan references in the case of our domestic fixed income product), would such a submission be precluded from being considered?

Response: The absence of 457 Plan references would not preclude your firm from consideration.

9. **Are contributions employee-directed? If so, what are the specifics (how much, vesting schedules, penalties, etc.)?**

Response: Contributions are employee-directed and made only on a pre-tax basis. Participants under age 50 may contribute up to an allowable limit of \$12,000 in 2003. Participants over age 50 may contribute up to an allowable limit of \$14,000 in 2003. Limits are governed by Section 457 of the Internal Revenue Code. Participants are 100% vested at all times. 457 plans do not have participant withdrawal penalties.

10. **Is there an employer match? If yes, please state the percentage.**

Response: There is no employer match.

11. **What types of withdrawals are allowed under the plan (death, disability, termination, retirement, in service withdrawals, loans, etc.)? Penalties?**

Response: Participants may withdraw accumulated funds upon termination of employment, retirement, de minimis, or a qualified unforeseen emergency. All accumulated funds are subject to federal and State income tax as they are paid out.

12. **What are the provisions for transfers between the Plan's investment options (daily, monthly, quarterly)?**

Response: Participants can make transfers on a daily basis.

13. **Under Section IV. Information Included in the Proposal. A.1. indicates that a commingled fund is acceptable. Is monthly pricing appropriate or must this commingled fund offer daily pricing?**

Response: A commingled fund must offer daily pricing that can be transmitted to CitiStreet.

14. **Is the contract negotiable?**

Response: Yes, the Board is willing to negotiate contracts if it is in the best interest of the State and participants.

15. **Some of the terms and conditions in the RFP do not appear to be applicable to an agreement for investment manager services. Will the State agree to delete some of the terms and add some investment terms, i.e., brokerage practices and proxy voting?**

Response: Please refer to the Response to Question # 14.

16. **Who is the "Contractor"?**

Response: The Contractor is the legal entity that will provide the investment products and enter into a binding agreement with the State of Hawaii.

17. For the purposes of a mutual fund investment, who is the “trading agent”?

Response: CitiStreet is the trading agent.

18. For the purposes of a mutual fund investment, who is the “settling agent”?

Response: State Street Bank and Trust, as the custodian, is the settling agent.

19. How will the account(s) be registered on the books for the fund’s transfer agent?

Response: The account will be registered on the books under State Street Bank and Trust, as the custodian for the State of Hawaii Deferred Compensation Plan.

20. Which NSCC application will be utilized (Fund/SERV, Trust Fund SERV, DCC&S)?

Response: CitiStreet does not support a NSCC application. All trading is done either via fax or custom electronic transmission to several investment houses. Offerors must be able to deliver a daily net asset value (“NAV”) to CitiStreet.

21. What is the NSCC Clearing Number or Firm Alpha?

Response: Not applicable.

22. Are there any service fees/sub-transfer agency fees expected?

Response: The current TPA is compensated based on a stand-alone basis and is not reliant on sub-transfer agency fees from the investment option providers. However, the Board recognizes that some investment option providers may have sub-transfer agency fees built into certain investment strategies/product offerings. The Board requests that where sub-agency fees exist, that they be fully disclosed in order to properly evaluate total fees and the investment strategies/product offerings.

23. [Question Summarized]. Our firm is currently engaged in a lawsuit with another state entity that we believe is without merit. We are not proposing the investment strategy that is involved in the lawsuit, but would like to submit proposals for other investment strategies managed by our firm. Would the existence of the current lawsuit preclude our firm from being considered?

Response: Existing lawsuits would not preclude your firm from consideration.

III. REQUESTS TO AMEND AND RESPONSES

- 1. The current RFP does not request additional proposals for the index investment option which is currently the most popular equity strategy selected by your participants and alone stands for 17% of the entire Plan. We suggest that the Board add an additional Equal Weighted S&P 500 strategy to the Plan's current indexing strategy option.**

Response: The Board encourages Offerors to submit either actively and passively managed investment options for the investment categories listed in the RFP (i.e., Bond/Fixed Income, Large Cap Value Equity, Large Cap Growth Equity and Small/Mid Cap Value Equity). An equally weighted S&P 500 index strategy would qualify as a Large Cap Core Equity investment option. At this time, the Board is not requesting proposals in this category.

- 2. Note: Requests to amend the General Conditions or any other contractual language contained within the RFP must be submitted in writing along with your proposal.**